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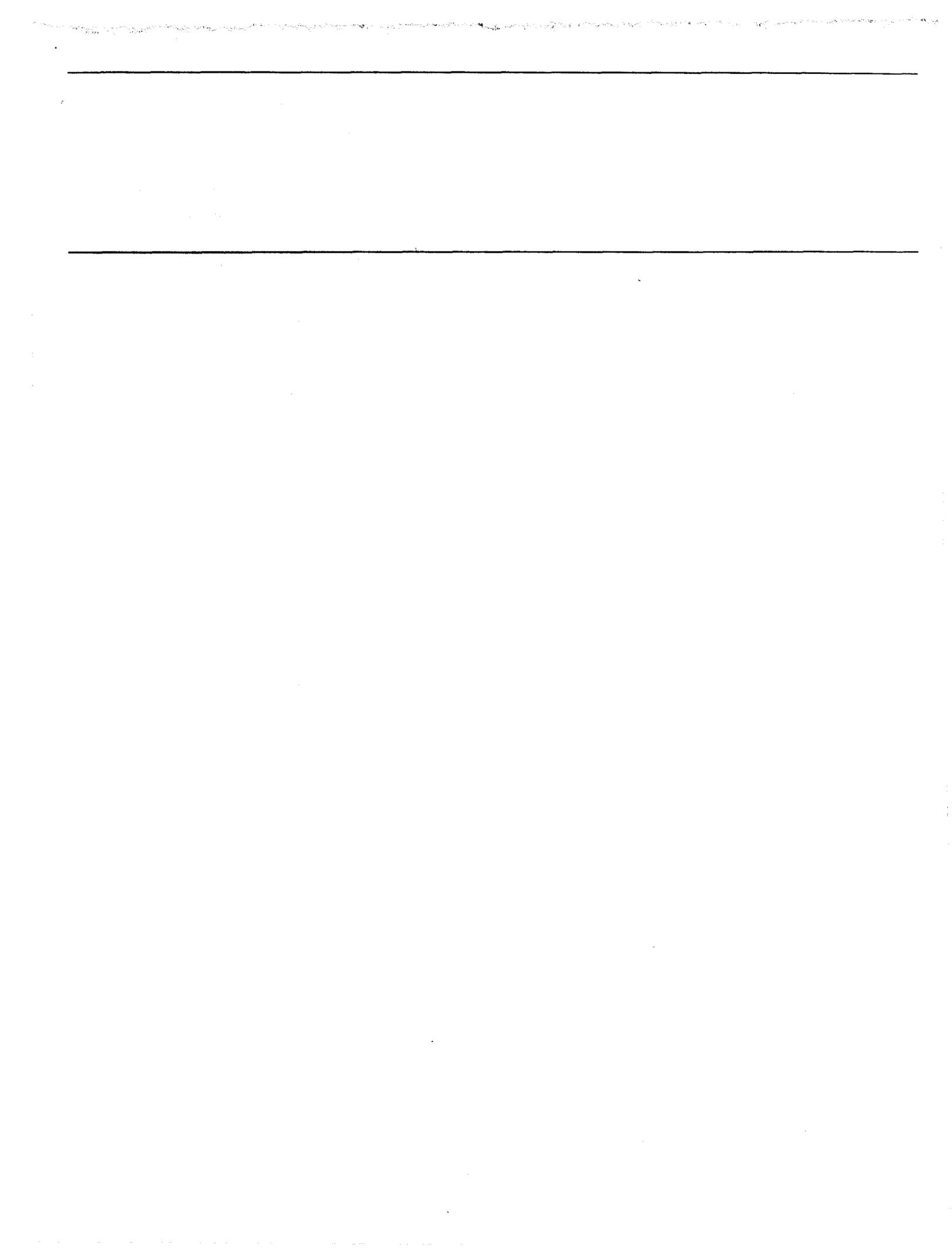
Fact Sheet for the Joint Committee on
Taxation

July 1989

**TAX
ADMINISTRATION**

**Statistics on IRS' Use
of Levies to Collect
Delinquent Taxes**







United States
General Accounting Office
Washington, D.C. 20548

General Government Division

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The Honorable Dan Rostenkowski
Chairman, Joint Committee on Taxation

The Honorable Lloyd Bentsen
Vice Chairman, Joint Committee on
Taxation
Congress of the United States

This fact sheet, one of a series of documents responding to a request by the Committee's Chief of Staff, provides statistical data on the results of the Internal Revenue Service's (IRS) use of levies to collect delinquent taxes through its Automated Collection System (ACS). As used herein, a levy is the seizure of a taxpayer's liquid assets (e.g., bank accounts, wages) that are in the possession of third parties (e.g., financial institutions, employers). Levies are generally used by ACS staff and district office revenue officers to collect tax delinquencies from taxpayers not responding to a series of notices sent from IRS service centers.

IRS does not know the amount collected as a result of levies or the number of levies that were productive; that is, they resulted in some collection amount. Accordingly, to respond to the request, we developed estimates of IRS' use and results of levies from a sample of taxpayers whose accounts IRS sent to ACS during fiscal year 1986--the latest year for which collection information was available. According to IRS statistics, ACS accounted for about 70 percent of the levies used in fiscal year 1986, with the remainder used by revenue officers in IRS district offices. As agreed with the Chief of Staff, we did not attempt to develop information on revenue officers' use of levies because complete information on their collection actions was not readily available.

RESULTS IN BRIEF

IRS used levies to attempt collection on about one-half of the delinquent taxpayers whose accounts IRS sent to ACS during fiscal year 1986. The levies averaged almost two per

taxpayer and almost one-half of them were productive. Collections had totaled about \$696 million from the time the cases were sent to ACS until mid-1988.

Although levies were used more to resolve individual than business accounts, business levies were slightly more productive than individual levies. Information was not readily available to analyze why levies were not used in all cases or why over one-half of the levies were not productive. Possible reasons are that IRS does not always have information on assets to levy, and when it does, assets such as bank accounts may have been depleted.

OBJECTIVE, SCOPE, AND METHODOLOGY

To provide information on the results of IRS levies, we analyzed collection information for a stratified statistical sample of delinquent taxpayers. We adjusted the original taxpayer universe from 1.4 million to 883,281 and our initial sample from 2,652 (1,052 individuals and 1,600 businesses) to 1,706 (665 individuals and 1,041 businesses) primarily because complete collection information was not readily available for some ACS cases and for cases that bypassed ACS and were sent to revenue officers in the field.

We estimated the number of (1) delinquent taxpayers whose assets IRS attempted to levy, (2) levies used per taxpayer, and (3) productive levies (those resulting in delinquent tax collections) from the time the accounts were sent to ACS until ACS completed action, but not later than June 1988. We also projected the amount of money collected as a result of these levies. We developed this information by analyzing taxpayer account data from IRS' individual and business master files and ACS case files. In projecting the results of our sample to the adjusted universe of 883,281, we are 95-percent confident that our estimates are within the sampling errors shown in table II.2 in appendix II. Our scope and methodology are discussed in greater detail in appendix I.

Our work was done between October 1987 and May 1989 and in accordance with generally accepted government auditing standards. We discussed the information in this fact sheet with IRS officials, who made minor technical comments that are incorporated where appropriate.

PROCESS FOR USING LEVIES

In most cases, IRS affords taxpayers several opportunities to satisfy their tax obligations before levying their assets. First, service centers attempt to collect unpaid taxes by sending businesses and individuals a series of balance due notices over a period of several months. The final notice is sent by certified mail alerting the taxpayer that failure to pay can result in levy action. Of the \$23.3 billion in unpaid taxes collected in fiscal year 1988, \$10 billion resulted from initial computer-generated balance due notices to the taxpayers; subsequent computer notices resulted in collections of an additional \$5.4 billion.

Generally, if the case is not resolved during the notice stage, it is classified as a delinquent account and forwarded to one of IRS' 21 ACS call sites or, in some cases, to one of 63 district offices. The remaining \$7.9 billion was collected in 1988 by ACS staff or district office revenue officers using various collection tools, including the use of 2.2 million levies.

When an account is transferred to ACS, IRS' first action is generally to use computer-generated levies for those taxpayers on whom IRS has available levy source information (i.e., where the taxpayer is employed or has financial accounts). If this initial levy does not satisfy the delinquency or the taxpayer does not contact IRS, ACS staff, using existing or newly identified levy sources, can use additional levies to resolve the outstanding delinquency.

Accounts not resolved at ACS often proceed to the final stage of collection--the collection field function in one of IRS' district offices. Also, accounts meeting certain IRS dollar or other criteria bypass ACS and are sent directly to the field. Here, revenue officers attempt to collect delinquent taxes through more direct means, such as face-to-face contact with taxpayers. In settling accounts, revenue officers can, among other things, levy taxpayers' assets, seize taxpayers' property, or both.

Levies used by ACS staff or revenue officers may not be productive for a number of reasons. Wage levies would be unproductive if the taxpayer was unemployed at the time of levy or had changed jobs and IRS was not aware of the new employer. Even if employed, the taxpayer can avoid a levy

on wages if they are below the amount exempted by statute, which varies according to the taxpayer's number of dependents. Financial institution levies would be unproductive if the taxpayer no longer had accounts with the institution. Information is not readily available, however, to provide a comprehensive analysis of these factors or to assess which reasons are most responsible for unproductive levies.

STATISTICAL ESTIMATES
OF IRS' USE OF LEVIES

Our overall estimates of IRS' use of levies and levy results for individual and business taxpayers who had delinquent accounts sent to ACS during fiscal year 1986 are as follows:

--IRS used levies to attempt collection from an estimated 448,171 taxpayers, or 50.7 percent of the 883,281 delinquent taxpayers. IRS used levies more often for individuals than for businesses.

--IRS levied these taxpayers' assets an estimated 850,346 times--an average of 1.9 levies per taxpayer. On the average, IRS levied an individual's assets slightly more often than a business' assets.

--An estimated 402,509 levies, or 47.3 percent of the 850,346 levies used, were productive. Levies to collect business liabilities were slightly more productive than the levies used to collect individual liabilities.

--IRS collected an estimated \$695.8 million as a result of these levies--an average of \$1,553 per taxpayer. Although levies resulted in significantly more collections in total from individuals than from businesses, levy collections per taxpayer were higher for businesses than individuals.

--An estimated 151,290 of the productive levies resulted in some type of periodic payment of the delinquent taxes--either through wage levies or installment agreements made directly with the taxpayers. Over 98 percent of the periodic payments were from individuals.

Actual collections from levies in our sample ranged from \$1 to \$31,015 but may increase as IRS collects additional revenues from the wage levies and installment agreements. Table II.1 shows our combined and separate estimates of levy

results for individual and business taxpayers. Table II.2 shows the sampling errors for our estimates.

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As arranged with the Chief of Staff, we are sending copies of this fact sheet to the Commissioner of Internal Revenue and other interested parties. We will make copies available to others upon request.

The major contributors to this fact sheet are listed in appendix III. If you have any questions about our study or this document, please contact me on 275-6407.

Jennie S. Stathis

Jennie S. Stathis
Director, Tax Policy and
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ABBREVIATIONS

ACS	Automated Collection System
IRS	Internal Revenue Service

SCOPE AND METHODOLOGY

To develop information on the results of IRS' use of levies to collect delinquent taxes, we used a random sample to make statistical estimates of the number of levies used and the amount of money collected through levies for taxpayers whose accounts IRS sent to ACS during fiscal year 1986. The sample was stratified by individual and business taxpayers, which allowed us to make separate projections for each group of taxpayers.

SAMPLE SELECTION

We obtained computer tapes from IRS that included all 1.4 million taxpayers with accounts that IRS classified as delinquent during fiscal year 1986. The delinquent account classification denotes the point in time at which IRS generally begins to use levies to collect unpaid taxes. We initially sampled 2,652 of these delinquent taxpayers--1,052 individuals and 1,600 businesses. We did not review 946 of these cases--387 individuals and 559 businesses--either because they were sent to revenue officers in the collection field function or because IRS was otherwise unable to provide information on collection actions taken. As a result, the sample size was reduced to 1,706. Accordingly, we adjusted the projected universe to 883,281.

Revenue officer cases were not reviewed, as agreed with your staff, because IRS could not assure us that all cases in our sample could be located. Cases closed by revenue officers are periodically shipped to federal records centers for storage, but IRS does not maintain listings of the specific taxpayer cases included in each shipment. Reviewing only open revenue officer cases still available at district offices would have biased our results because they would not include those cases where levies were productive and satisfied the delinquency in full. For those cases processed through ACS, IRS was unable to provide us with collection information on all sampled cases, because after a certain period of time, account information was no longer retrievable from the ACS computer files or other records.

We reviewed master file and ACS case information on the sampled taxpayers to determine whether IRS used levies to

attempt collection. Of the 1,706 taxpayers reviewed, we identified 787--404 individuals and 383 businesses--for which IRS used levies to attempt collection.

Table I.1 summarizes how we arrived at our sample of individual and business delinquent taxpayers.

Table I.1:

Universe and Sample Sizes of Individual
and Business Taxpayers Classified as
Delinquent During Fiscal Year 1986

<u>Type of taxpayer</u>	<u>Universe</u>	<u>Initial sample</u>	<u>Cases not reviewed</u>	<u>Cases reviewed</u>		<u>Total</u>
				<u>No levy action</u>	<u>Levy action</u>	
Individual	813,401	1,052	387	261	404	665
Business	567,310	1,600	559	658	383	1,041
Total	<u>1,380,711</u>	<u>2,652</u>	<u>946</u>	<u>919</u>	<u>787</u>	<u>1,706</u>

IDENTIFICATION OF LEVY RESULTS

We identified cases in which IRS attempted to levy taxpayers' assets from ACS case file information and, using a combination of the information shown on ACS and master file payment records, determined if any payments resulted from the levy. However, because information in these records did not always indicate whether payments actually came from levied assets, we considered all payments received within 35 days of the levy as resulting from the levy. At the time of our review, IRS procedures required following up on accounts in 35 days if no payment or other account action occurred. Although this approach may overstate the actual amount collected from levies, it still reflects the results of IRS' use of levies because, as indicated by IRS officials, a notice of levy by itself may prompt taxpayers to pay or make payment arrangements in order to avoid enforcement of the levy. For example, when a wage levy is served on a taxpayer's employer, the taxpayer may contact IRS to settle the delinquency through other means and thereby avoid the wage reduction and the involvement of the taxpayer's employer. In these situations, IRS would usually accept an alternative arrangement as long as it would resolve the delinquency.

We did not make an overall reliability assessment of IRS' computer-generated information. We did, however, test the validity of IRS' computerized information on levies used and payments received and our approach for using the 35-day period by reviewing a judgmental sample of the supporting documents for 245 payments attributed to IRS' use of levies. These payments were processed at IRS service centers in Fresno, California; Kansas City, Missouri; and Ogden, Utah. The results of our validation check confirmed the accuracy of IRS' computerized information and our use of the 35-day payment window. We determined that all of the payment information was accurate and found no evidence that payments were the result of any other IRS or taxpayer actions.

Table II.1 in appendix II shows the universe estimates of levy results for individual and business taxpayers.

SAMPLING ERRORS FOR
LEVY RESULTS DATA

Because we reviewed a statistical sample of cases where IRS used levies to collect delinquent taxes, each estimate developed from the sample has a measurable precision, or sampling error. The sampling error is the maximum amount by which the estimate obtained from a statistical sample can be expected to differ from the true universe value estimated. Sampling errors are usually stated at a certain confidence level; in this case, it is 95 percent. This means the chances are 19 out of 20 that if we reviewed all taxpayers with accounts sent to ACS during fiscal year 1986 and for which information on collection actions was available, the results would differ from the estimates obtained from our sample by no more than the sampling errors of such estimates.

Table II.2 in appendix II shows the sampling errors for our estimates of IRS levy results.

STATISTICAL TABLES SHOWING
RESULTS OF IRS' USE OF LEVIES

Table II.1:

Universe Estimates of IRS' Use
of Levies to Collect Delinquent
Individual and Business Accounts

	<u>Total</u> <u>taxpayers</u>	<u>Individual</u> <u>taxpayers</u>	<u>Business</u> <u>taxpayers</u>
Taxpayers with accounts sent to ACS with information on collection actions	883,281	514,175	369,106
<u>Levy results</u>			
Cases where IRS used levies to attempt collection	448,171	312,371	135,800
Number of levies used to attempt collection	850,346	621,649	228,697
Average number of levies per taxpayer	1.90	1.99	1.68
Number of productive levies	402,509	287,629	114,880
Percent of productive levies	47.3%	46.3%	50.2%
Number of productive levies resulting in installment payments	151,290	148,453	2,837
Amount of money collected as a result of levies (millions)	\$695.8	\$448.1	\$247.7
Average amount of levy collections per taxpayer	\$1,553	\$1,435	\$1,824

Table II.2:

Sampling Errors for Universe Estimates
of IRS' Use of Levies to Collect Delinquent
Individual and Business Accounts

<u>Adjusted universe</u>	<u>Type of taxpayer</u>	<u>Universe estimate</u>	<u>Sampling errors at the 95-percent confidence level (percent +/-)</u>
Taxpayers with			
accounts sent to	Individual	514,175	4.6
ACS with information	Business	369,106	3.6
on collection actions	Combined	<u>883,281</u>	3.1
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<u>Levy results</u>			
Cases where IRS	Individual	312,371	7.6
used levies to	Business	135,800	8.7
attempt collection	Combined	<u>448,171</u>	5.9
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Number of levies	Individual	621,649	5.1
used to attempt	Business	228,697	6.0
collection	Combined	<u>850,346</u>	4.0
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Average number	Individual	1.99	5.0
of levies per	Business	1.68	6.0
taxpayer	Combined	1.90	4.2
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Number of	Individual	287,629	7.4
productive	Business	114,880	7.7
levies	Combined	<u>402,509</u>	5.8
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Percent of	Individual	46.3	7.4
productive	Business	50.2	7.7
levies	Combined	47.3	5.8
<hr/>			
Number of productive	Individual	148,453	12.3
levies resulting in	Business	2,837	68.8
installment payments	Combined	<u>151,290</u>	12.2
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Amount of money	Individual	\$448.1	18.8
collected as a result	Business	247.7	20.6
of levies (millions)	Combined	<u>\$695.8</u>	14.2
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Average amount of	Individual	\$1,435	18.8
levy collections	Business	1,824	20.6
per taxpayer	Combined	1,553	14.2

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